

Kentucky Retirement Systems Summary
Prepared for
Blue Ribbon Commission on Public Employees Retirement Benefits

1. When Is A Member Eligible to Retire?

Background

Retirement eligibility is dependent upon the member's age, service credit, and type of service (non-hazardous or hazardous). For members participating prior to August 1, 2004, the amount of service credit used to determine retirement eligibility includes current service, prior service, purchased service, and sick leave service. For members participating on or after August 1, 2004, the amount of service credit used to determine retirement eligibility includes current service and sick leave service but does not include purchased service, with the exception of Recontribution of Refunded Service and Omitted Service.

Non-Hazardous Members

For Non-Hazardous members, the requirements for **Normal Retirement** are:

A non-hazardous member, age 65 or older, with at least 1 month of service credit may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest.

A non-hazardous member, age 65 or older, with at least 48 months of service credit is eligible to receive an unreduced monthly benefit for life based on the member's salary and service credit.

For Non-Hazardous members, the requirements for **Early Retirement** are:

A non-hazardous member with 27 or more years of service credit can retire at any time with no reduction in benefits.

A non-hazardous member with at least 25, but less than 27 years of service credit, may retire at any time, prior to age 65, with a reduction in benefits.

A non-hazardous member, age 55, with at least 5 years of service credit may retire with a reduction in benefits.

If a non-hazardous member is eligible for a reduced benefit, the amount of reduction will depend upon the member's age or years of service at retirement. The following chart shows the reductions for age or service.

<i>Years to Attain Age 65 or 27 Years of Service (Whichever is Less)</i>			
<i>% of Non-Hazardous Benefit Paid</i>			
1 Year	93.5%	6 Years	63%
2 Years	87%	7 Years	58.5%
3 Years	80.5%	8 Years	54%
4 Years	74%	9 Years	49.5%
5 Years	67.5%	10 Years	45%

EXAMPLE

A member has 25 years of service and is age 55. If the member chooses to retire, his/her benefit will be reduced to 87% (6.5% for each year away from 27 years of service).

Hazardous Members

For Hazardous members, the requirements for **Normal Retirement** are:

A hazardous member, age 55 or older, with at least 1 month of hazardous duty service credit may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest.

A hazardous member, age 55 or older, with at least 60 months hazardous duty service credit is eligible to receive an unreduced benefit based on the member's salary and service.

For Hazardous members, the requirements for **Early Retirement** are:

A hazardous member with 20 or more years of service credit may retire at any time with no reduction in benefits.

A hazardous member, age 50, with at least 15 or more years of service credit may retire with a reduction in benefits.

If a hazardous duty member is eligible for a reduced benefit, the amount of reduction will depend upon the member's age or years of service at retirement. The following chart shows reductions for age or service.

<i>Years to Attain Age 55 or 20 Years of Service (Whichever is Less)</i> <i>% of Hazardous Benefit Paid</i>	
1 Year	93.5%
2 Years	87%
3 Years	80.5%
4 Years	74%
5 Years	67.5%

EXAMPLE

A member has 18 years of service and is age 52. If the member chooses to retire, his/her benefit will be reduced to 87.0% (6.5% for each year away from 20 years of service).

2. How Are Retirement Benefits Determined?

The three systems administered by the Systems are qualified defined benefit plans. A defined benefit plan pays benefits based on a formula. The formula for calculation of benefits is:

<i>Final Compensation</i>	<i>X</i>	<i>Benefit Factor</i>	<i>X</i>	<i>Years of Service Credit</i>	<i>=</i>	<i>Annual Benefit</i>
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Final Compensation

By definition, Final Compensation is the average of the five (5-High) or three (3-High) fiscal years during which the member had the highest monthly average salary. Final Compensation is determined by dividing the total salary earned during the period (5-High or 3-High) by the total months worked during the period and then multiplying by twelve (to annualize the value).

If the Final Compensation is based on the 5-High, it must include at least 48 months and a minimum of five fiscal years. When Final Compensation is based on the 3-High, it must include at least 24 months and a minimum of three fiscal years.

In both cases, if the years with the highest monthly average (5-High or 3-High) do not contain the minimum number of months required (48 months or 24 months), additional years must be added into the Final Compensation until the minimum number of months required has been obtained.

The fiscal years do not have to be consecutive, although for most members, the last years are generally the years of highest earnings.

Non-Hazardous members may qualify for either a 5-High or 3-High Final Compensation calculation. In order to qualify for 3-High Final Compensation, a non-hazardous member must meet all of the following:

1. You must have a minimum 27 years of service credit.
2. Your age + service credit must equal at least 75 years.

Example: Member is 48 years of age and has 27 years of service credit. This would total to 75 years of age and service credit.

3. You must retire between August 1, 2001 and January 1, 2009.

Non-Hazardous members who do not meet the criteria for 3-High Final compensation qualify for 5-High Final Compensation. *Hazardous member* retirement benefits are based upon 3-High Final Compensation only.

EXAMPLE				
<i>John Doe is a non-hazardous employee and is planning to retire August 1, 2008. John's Final Compensation under 5-High Final Comp and 3-High Final Comp (if he would be eligible) for this retirement date is listed below.</i>				
	High-5 Final Compensation		High-3 Final Compensation	
Fiscal Year	Salary	Months	Salary	Months
2007-2008	\$2,625.00	1	\$2,625.00	1
2006-2007	\$30,000.00	12	\$30,000.00	12
2005-2006	\$28,500.00	12	\$28,500.00	12
2004-2005	\$27,000.00	12	-----	----
2003-2004	\$25,500.00	12	-----	----
TOTAL:	\$113,625.00	49	\$61,125.00	25
	\$113,625.00 ÷ 49 Months X 12 (to annualize value)		\$61,125.00 ÷ 25 Months X 12 (to annualize value)	
Final Compensation:	\$27,826.53		\$29,340.00	

Benefit Factors

Benefit factors for each retirement system (KERS, CERS, and SPRS) are set by state statute. Benefit factors are different for each retirement system and vary depending upon the type of service (hazardous/non-hazardous), the amount of service, and in some cases the timing of the service and/or retirement date.

Non-Hazardous Member Benefit Factors	
KERS is 1.97% - IF:	Member does not have 13 months credit for 1/1/1998 – 1/1/1999.
KERS is 2.0% - IF :	Member has 13 months credit for 1/1/1998 – 1/1/1999.
KERS is 2.2% - IF	Member has 20 or more years of service credit including 13 months service credit for 1/1/1998 – 1/1/1999 and has an effective retirement date between 2/1/1999 and 1/1/2009.
CERS is 2.2% -IF:	Member participated prior to August 1, 2004.
CERS is 2.0% - IF:	Member's participation is on or after August 1, 2004.

Hazardous Member Benefit Factors	
KERS Hazardous is 2.49% CERS Hazardous is 2.50% SPRS is 2.50%	Note: Only those KERS and CERS members participating in a hazardous duty position approved by the Systems' Board of Trustees are eligible for hazardous duty benefits.

EXAMPLE BENEFIT CALCULATION						
<i>John Doe works in a non-hazardous position for an agency participating in CERS. He is retiring August 1, 2008 with a Final Compensation of \$29,340.00 and 27 years of service credit. If John meets the requirements for 3-High, the retirement formula is as follows:</i>						
<i>Final Compensation</i>	<i>X</i>	<i>Benefit Factor</i>	<i>X</i>	<i>Years of Service Credit</i>	<i>=</i>	<i>Annual Benefit</i>
\$29,340.00	X	2.20%	X	27 Years	=	\$17,427.96 per year/ 12 = \$1,452.33 per month for the Basic payment option
<i>If John did not meet the requirements for 3-High and benefits were based on his 5-High Final Compensation, the retirement formula is as follows:</i>						
<i>Final Compensation</i>	<i>X</i>	<i>Benefit Factor</i>	<i>X</i>	<i>Years of Service Credit</i>	<i>=</i>	<i>Annual Benefit</i>
\$27,826.53	X	2.20%	X	27 Years	=	\$16,528.96 per year/ 12 = \$1,377.41 per month

The following scenarios are provided to give an example of how a benefit could be impacted by various factors.

EXAMPLE 1 – Assumes no service purchase, no sick leave, and no compensatory time.						
<i>Jane Doe began employment at Age 22, worked for 27 years, and at Age 49 decided to retire.</i>						
January 1, 2009 retirement date				324 months total service		
	<i>Fiscal Year</i>		<i>Salary</i>			<i>Months</i>
	2008 – 2009		\$25,000.00			6
	2007 – 2008		\$45,000.00			12
	2006 - 2007		\$40,000.00			12
	TOTAL		\$110,000.00			30
\$110,000.00 ÷ 30 Months X 12 (to annualize value) = \$44,000.00 Final Compensation						
<i>Final Compensation</i>	X	<i>Benefit Factor</i>	X	<i>Years of Service Credit</i>	=	<i>Annual Benefit</i>
\$44,000.00	X	2.20%	X	27	=	\$26,136.00 per year/ 12 = \$2,178.00 per month for the Basic payment option

EXAMPLE 2 – Assumes Jane has accumulated 12 months of sick leave						
<i>Jane Doe began employment at Age 22, worked for 27 years, and at Age 49 decided to retire.</i>						
January 1, 2009 retirement date				324 months total service + 12 months of sick leave		
	<i>Fiscal Year</i>		<i>Salary</i>			<i>Months</i>
	2008 – 2009		\$25,000.00			6
	2007 – 2008		\$45,000.00			12
	2006 - 2007		\$40,000.00			12
	TOTAL		\$110,000.00			30
\$110,000.00 ÷ 30 Months X 12 (to annualize value) = \$44,000.00 Final Compensation						
<i>Final Compensation</i>	X	<i>Benefit Factor</i>	X	<i>Years of Service Credit</i>	=	<i>Annual Benefit</i>
\$44,000.00	X	2.20%	X	28	=	\$27,104.00 per year/ 12 = \$2,258.66 per month for the Basic payment option

EXAMPLE 3 – Assumes Jane has accumulated 12 months of sick leave and 240 hours of compensatory time, which resulted in a payout of \$6,172.07.						
<i>Jane Doe began employment at Age 22, worked for 27 years, and at Age 49 decided to retire.</i>						
January 1, 2009 retirement date				324 months total service + 12 months of sick leave and 240 hours of compensatory time		
	<i>Fiscal Year</i>		<i>Salary</i>			<i>Months</i>
	2008 – 2009		\$31,172.00			6
	2007 – 2008		\$45,000.00			12
	2006 - 2007		\$40,000.00			12
	TOTAL		\$116,172.00			30
\$116,172.00 ÷ 30 Months X 12 (to annualize value) = \$46,468.80 Final Compensation						
<i>Final Compensation</i>	X	<i>Benefit Factor</i>	X	<i>Years of Service Credit</i>	=	<i>Annual Benefit</i>
\$46,468.80	X	2.20%	X	28	=	\$28,624.78 per year/ 12 = \$2,385.40 per month for the Basic payment option

3. Cost of Living Adjustment for Retirees

The 1996 General Assembly enacted an automatic cost of living adjustment (“COLA”) provision for all recipients of the Systems’ benefits. Each year in July, a recipient’s retirement allowance is increased by the average annual increase in the Consumer Price Index (“CPI”) for all urban consumers for the preceding calendar year. The CPI is announced in January by the U.S. Department of Labor, Bureau of Statistics.

The COLA is given automatically. However, the General Assembly has the authority to reduce, suspend or eliminate the COLA in the future. The COLA is not a guaranteed benefit.

WHAT ACTIONS HAVE ALREADY BEEN TAKEN TO ADDRESS THESE ISSUES?		
ITEM	PROVISIONS PRIOR TO LEGISLATION ENACTED IN 2004 GENERAL ASSEMBLY	PROVISIONS AFTER TO LEGISLATION ENACTED IN 2004 GENERAL ASSEMBLY
Purchases	Most service purchases count toward determining retirement eligibility and insurance benefits at retirement.	<ul style="list-style-type: none"> Service purchases made by current and future employees on or after August 1, 2004 do not count toward vesting for insurance benefits. Exceptions: Recontribution of Refund and Omitted. Service purchases made by employees hired on or after August 1, 2004 do not apply toward vesting for retirement benefits. Exceptions: Recontribution of Refund and Omitted.
Insurance Benefits	<p>Non-Hazardous & Hazardous</p> <p>Percentage of monthly contribution rate adopted by the Board:</p> <ul style="list-style-type: none"> 0-4 years: 0% paid 4-9 years: 25% paid 10-14 years: 50% paid 15-19 years: 75% paid 20 years: 100% paid <p>Employees hired after July 1, 2003 must have 10 years of service credit in order to participate in the insurance program.</p> <p>Hazardous Only</p> <p>If the hazardous member has a spouse and/or dependent children, KRS may also pay a portion of the monthly contribution towards a couple, parent plus, or family coverage plan. The portion paid toward couple, parent plus, or family coverage is based solely on the amount of service the member has in an approved hazardous position.</p>	<p>Non-Hazardous</p> <ul style="list-style-type: none"> Employees hired on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for each year of earned service without regard to a maximum dollar amount. <p>Hazardous</p> <ul style="list-style-type: none"> Employees hired on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for each year of earned service without regard to a maximum dollar amount. Spouses receive \$10 per month for insurance benefits for each year of earned service after the employee’s death. <p>Other Components</p> <ul style="list-style-type: none"> The dollar amount paid each is tied to the retiree COLA which adjusts annually due to changes in the CPI for all urban consumers. Employees are required to have 10 years of earned service at retirement in order to be eligible to receive insurance benefits. Insurance benefits for these employees are not covered under the inviolable contract.

2007 Blue Ribbon Commission on Public Employee Retirement Systems
Health Benefits Work Group

KRS MEDICARE ELIGIBLE PLAN BENEFITS TABLE

<u>KRS(KERS, CERS, SPRS)</u>	
Retirees – 25924 Spouses/Adult Handicapped Children – 5516 Total Participants – 31440 (most recent data transfer) Projections per year growth 6-7000 members/year across all plans (under 65), 500-1000 members/year (over 65) Members by System KERS: 14756 CERS: 16291 SPRS: 393 Total: 31440 Waived Coverage: 12,000	Fiscal Year 2006 – Administrative Cost Fiserv-\$4 million Walgreens-\$1 million Fiscal Year 2006 Medical Trend – 5% Total Fiscal Year 2006 Pharmacy Trend– 3.8% Total Fiscal Year 2007 Pharmacy Trend - 0.1% Fiscal Year 2007 Medical Trend- 5.0%
All products self-insured	
TPA -Fiserv Health PBM -Walgreens Health Initiatives	Pharmacy Utilization Rates (2007) Generic Efficiency Rate – 98% Generic Dispensing Rate – 62.4%
Medical Fiscal Year 2006 - \$39.6 million plan cost/\$9.1 million member cost Fiscal Year 2007 – Projected \$51 million total Drug Fiscal Year 2006 - \$51.9 million plan cost/\$17 million member cost Fiscal Year 2007 – Projected \$73 million total	Demographics 72.6 years of age Smoking status unknown for Medicare eligible population 38% Male/62% Female
Calendar Year 2008- (No changes, except \$1 Medical Only increase) \$144/month, \$1728/year Medical Only Plan \$260/month, \$3120/year Plus Plan \$329/month, \$3948/year Premium Plan Calendar Year 2007 – (5% premium increase) \$143/month, \$1716/year Medical Only Plan \$260/month, \$3120/year Plus Plan \$329/month, \$3948/year Premium Plan Calendar Year 2006- (6.34% premium decrease) \$143/month, \$1716/year Medical Only Plan \$237/month, \$2844/year Plus Plan \$310/month, \$3720/year Premium Plan	KRS/ In Network/Out of Network Unlimited benefits* Deductibles: Medical Only: \$131 Plus:\$250 Max OOP: \$1000 Premium:\$150 Max OOP: \$500
	* Medical benefits apply to Medicare-covered services only and assume physician accepts Medicare and Medicare assignment.